



**CALIFORNIA EMERGENCY MANAGEMENT AGENCY**  
**LOCAL ASSISTANCE MONITORING BRANCH**  
3650 SCHRIEVER AVENUE  
MATHER, CALIFORNIA 95655  
PHONE: (916) 845-8120 FAX: (916) 845-8380

March 16, 2009



Mr. David Ashby  
Executive Director  
New Morning Youth and Family Services  
6765 Green Valley road  
Placerville, CA 95667

SUBJECT: AUDIT REPORT FOR THE PERIOD ENDED JUNE 30, 2008

Mr. Mr. Ashby:

The California Emergency Management Agency (CalEMA), formerly the Governor's Office of Emergency Services (OES) has received and reviewed the above subject audit report issued by Jeanine J. Mays on December 10, 2008. The report indicates there were certain issues involving significant deficiencies over financial reporting that was mentioned in a separate Management Letter dated December 10, 2008. Specifically, financial statements were prepared with generally accepted accounting principles but errors in applying those principles resulted in a materially misstated financial statement before the adjusting journal entries.

OMB Circular A-133, §\_\_\_\_.310 (f) states, "...auditees shall submit the appropriate copies of the reporting package described in paragraph (c) of this section and, if requested, a copy of any management letters issued by the auditor." Please submit a copy of the management letter addressing the above concerns by April 17, 2009. The copy should be sent to:

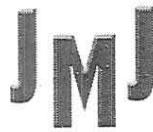
Sherry Leahy  
California Emergency Management Agency  
Local Assistance Monitoring Branch  
3650 Schriever Avenue  
Mather, CA 95650

In the event you have any questions or concerns regarding this issue, please contact Sherry Leahy at (916) 845-8103 or Sherry.Leahy@oes.ca.gov.

Respectfully submitted,

A handwritten signature in cursive script that reads "Michael Baldwin".

MICHAEL BALDWIN  
BRANCH CHIEF



**Jeanine J. Mays**

— Certified Public Accountant —

### **Communication of Significant Deficiencies**

Board of Directors  
New Morning Youth and Family Services  
Placerville, California

In planning and performing my audit of the financial statements of New Morning Youth and Family Services of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, I considered the Organization's internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, I do not express an opinion on the effectiveness of the Organization's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control that I consider to be significant.

Control deficiencies exist when the design or operation of a control does not allow management or employees in the normal course of their functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control. I consider the following deficiencies to be significant deficiencies in internal control.

#### **Reliance upon Auditor for Financial Statement Preparation**

The organization maintains and prepares financial statements in accordance with generally accepted accounting principles but errors in applying those principles resulted in a materially misstated financial statement before the adjusting journal entries.

Statement of Auditing Standards states that the auditor may not be a part of the Organization's internal control system; specifically someone from the Organization must be knowledgeable enough in generally accepted accounting principles to know if a misstatement has occurred in the financial statements.

#### **Allocation of Unallowed Expenses to Grants**

Costs applied to grants must be ordinary and necessary for the performance of the award. Costs of property tax on bare land, late fees and penalties are unallowed expenses. In-kind expenses are unallowed unless specifically written in the grant as a match. Care must be taken in the allocation report to comply with the OMB A-122 cost principles for non-profits and each granting agencies' rules.

#### **Earned Monies Unbilled**

Two grants were under billed during the year totaling to \$44,883 in lost revenues to the Organization. Billings and reconciliations need to be prepared timely. The amount is more than inconsequential and controls or reviews need to be in place to prevent re-occurrence.

This communication is intended solely for the information and use of management, Board of Directors grantors, and other within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "Jeanine J. Mays".

Jeanine J. Mays  
December 10, 2008



## NEW MORNING YOUTH AND FAMILY SERVICES

Main Office:  
6765 Green Valley Rd., Placerville, CA 95667  
Phone: 530.622.5551 Fax: 530.622.5800

Emergency Children's Shelter:  
Phone: 530.626.4190  
Fax: 530.626.4193



Early Childhood Counseling Center  
Phone: 530.672.1332  
Fax: 530.672.1331

David Ashby  
Executive Director

**Directors:**

President  
Jeff Neves  
Sheriff  
El Dorado County

Vice President  
Cathy Bean  
Deputy Superintendent  
El Dorado County  
Office of Education

Treasurer  
Judy Morris  
Camino

Secretary  
George Nielsen  
Chief of Police  
City of Placerville

Brad Clark  
Attorney at Law, Placerville

Michael Cozakis  
Founder  
Eagles Heart, Charly  
El Dorado Hills

Dolores Garcia  
C.P.A. Placerville

Carl Hagen  
Insurance Agent, Placerville

Brigitte Issel  
President, Education Express  
Tutoring & Music Instruction  
Placerville

Sara Jurens  
Producer/Writer  
Fox 40 News  
Cameron Park

Sam Muscarello  
Branch Manager  
River City Bank, Placerville

John Mooney, D. C.  
CEO, Placerville Sports Clinic  
Placerville

Carol Osborne  
Camino

Richard Parsons  
Co-Director  
Pacific AP Institute  
El Dorado Hills

Jim Ramos  
Placerville

David J. Thomas  
Realtor  
Placerville

Donald E. Vanderkar  
Civil/Environmental Eng., Ret.  
Placerville

William Wright  
Attorney at Law  
Cameron Park

January 16, 2009

Jeanine Mays  
Certified Public Accountant  
2533 Merrychase Drive, Suite 700  
Cameron Park, CA 95682

Jeanine:

Thank you so much for completed New Morning Youth & Family Services' FY 2007-2008 audit. Your professionalism and support of our agency is greatly appreciated.

In regards to your "Communication of Significant Deficiencies" while we do well understand and respect your professional opinion in this matter, we disagree with the level of your findings. Please let us know how to incorporate our responses into the document.

From your communication I understand the definitions for *Control Deficiency* and *Significant Deficiency* are as follows:

- A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in *design* exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in *operation* exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively. Control deficiencies may involve one or more of the five interrelated components of internal control.
- A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

Your findings included the following Significant Deficiencies:



*Serving the children, youth, and families of our community since 1970*

#### Reliance upon Auditor for Financial Statement Preparation

The organization maintains and prepares financial statements in accordance with generally accepted accounting principles but errors in applying those principles resulted in a materially misstated financial statement before the adjusting journal entries. Statement of Auditing Standards states that the auditor may not be a part of the Organization's internal control system; specifically someone from the Organization must be knowledgeable enough in generally accepted accounting principles to know if a misstatement has occurred in the financial statements.

*Agency Response: New Morning has made staffing changes in our administrative unit that strengthened our operations during this past year. To further strengthen internal controls and oversight the Board of Directors' Finance Committee will regularly review future fiscal statements.*

#### Allocation of Unallowed Expenses to Grants

Costs applied to grants must be ordinary and necessary for the performance of the award. Costs of property tax on bare land, late fees and penalties are unallowed expenses. In-kind expenses are unallowed unless specifically written in the grant as a match. Care must be taken in the allocation report to comply with the OMB A-122 cost principles for non-profits and each granting agencies' rules.

*Agency Response: We concur that a deficiency exists here but believe that it is a Control Deficiency. These errors of property tax, late fees and penalties being improperly allocated resulted when the agency transferred allocation systems from an external bookkeeper to an internal bookkeeper. While these errors did occur in the process of internalizing these systems the agency improved other control issues and is now able to exercise more immediate control of our fiscal system. This oversight was minimal representing less than 0.4% of total expenditures. This error has been corrected.*

*In-kind expenses are allocated across all funders based on our allocation system. However, there are direct corresponding in-kind revenues for each expense negating any impact to the funder.*

#### Earned Monies Unbilled

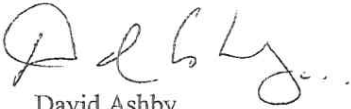
Two grants were under billed during the year totaling to \$36,508 in lost revenues to the Organization. Billings and reconciliations need to be prepared timely. The amount is more than inconsequential and controls or reviews need to be in place to prevent reoccurrence.

*Agency Response: We concur that a deficiency exists but believe that it is a Control Deficiency. However, we believe it is important to note that New Morning billed over \$2,000,000 dollars in grants, contracts and other billings in this fiscal period. The grant referred in this statement represented a loss of less than 2% of our overall billings and while*

*undesired we believe it is not "more than inconsequential". Further, due to improvements in our internal controls we were able to bill beyond our budget expectations in other areas (ex. our budget for Mental Health Medi-Cal was \$240,000 but we billed over \$282,000 -- an increase of 17.5%).*

Despite our disagreement on these issues we look forward to working with you on future audits.

Sincerely,

A handwritten signature in dark ink, appearing to read 'D. Ashby', with a stylized flourish at the end.

David Ashby  
Executive Director